

DRAFT

Fuel Neutral Reward Pilot Program Description

Introduction

The Fuel Neutral Reward Pilot Program is designed to stimulate the installation of energy efficiency measures through a financial incentive package that is available to residential ratepayers (1-4 units) after having had an RCS audit on their home.

Customer Eligibility Requirements to Participate

This Fuel Neutral Reward Program will be offered from January 1, 2001 through June 30, 2001, to RCS customers living in 1-4-unit buildings. The program will be delivered in the service territories of Massachusetts Electric, NSTAR Electric, and Western Massachusetts Electric.

Customers in the backlog are eligible to receive a home energy audit and a fuel neutral reward if they meet the program requirements. Customers receiving an audit after June 30 2000 are eligible to participate in the Fuel Neutral Reward Pilot Program if they had a work order completed at the time of the site visit.

The incentive will cover up to 25% of the cost of all allowable measures, up to a maximum of \$500. Each unit with a meter in a multi unit facility, up to 4 units, is eligible for a Fuel Neutral Reward, i.e.; a three family home with three meters is eligible for up to \$1500.

Customer Intake Procedures

Vendors will enhance current screening procedures by training Customer Service Representatives (CSR) to offer energy efficiency programs and educational services as an option to customers before offering the home energy audit.

Vendors will provide the intake data and the audit data that is currently captured to the utilities for them to determine what they would like to receive in an electronic format. Vendors will provide this data monthly. This will be the data that is collected during the intake, audit, work-order and installation components of the program. This will include audit requests, literature package sent, audit scheduled and total number of calls received.

The CSR will refer eligible customers to the low-income agencies through a pre-screening process. The vendors and utilities will work with the LEAN group to work out an appropriate script to inform customers about the most appropriate services to meet their needs and if appropriate, propose to ask the customer at the time of a phone intake if they are presently receiving fuel assistance. If they are they will be referred to the low-income network. Conversely, the low income agencies will provide referral to non-eligible customers to the RCS service network.

Customers who need technical information or are looking for alternative types of services will be referred to the appropriate organization. Customers can receive EnergyGuide CD's, educational material, professional/technical assistance, etc., over the telephone or via email/mail. A committee of vendor and utility representatives will develop more up to date information packages for consumers.

Cost Effectiveness of Measures

Eligible measures or measure packages will have a seven-year payback or less. The vendors' computerized audit used in the evaluation of the residence will be the tool used to determine the seven-year payback requirement.

Eligible Measures for Fuel Neutral Reward

Air Sealing, Hourly
Air Sealing, Half Day
Air Sealing, Full Day
Blower Door Diagnostics
Duct Sealing, Half Day
Duct Sealing, Full Day
Insulation, Attic
Insulation, Basement
Insulation, Rim Joist
Insulation, Wall
Pipe Insulation, Heating System
Refrigerator
Thermostat
Ventilation, Bathroom
Ventilation, Attic
Solar Domestic Hot Water-based on a custom analysis of the measure

Measures are marketed as a package to encourage whole-house treatment.

Domestic hot water measures, windows, heating systems and individual weatherization items are not eligible for the fuel neutral reward during the pilot program.

For those measures without an audit-determined payback vendors and utilities will agree to use a method based on a percentage of space heating cost. This will be arranged on a customized basis for those cases where software does not provide payback estimates.

Qualifying for a Fuel Neutral Reward

If a utility DSM incentive is available for the measure, the customer cannot receive a fuel neutral reward.

Demonstration Material Installation

The ECS vendors will continue to offer up to \$30 of free materials as a demonstration item to the RCS participants.

Sale of Materials

The ECS vendors may continue to sell materials as already approved by the utility and DOER.

Since CFL lightbulbs and fixtures currently have utility rebates from MECO, NSTAR, WMECO, they are not eligible for fuel neutral rewards. ECS vendors are required to provide the customer with the utility's lighting catalog so the customer can obtain product in that way if preferred.

Payment of Fuel Neutral Reward

The Fuel Neutral Reward is reimbursed either to the customer or through the vendor network. The method of reimbursement shall be determined by each utility. ~~is method of reimbursement to the participant will be quick and effective.~~ The vendors will work with the utilities to ensure they receive the appropriate recognition for providing the Fuel Neutral Reward to the customer.

Vendor Inclusion

Current vendors under contract to provide RCS audits to any Massachusetts utility company will offer the pilot to the utility program administrators. The program administrators will make good faith efforts to include other RCS vendors not located in the service territory described above in this pilot.

Contracting for Measure Installation

Through strategic alliances the vendors have forged with sub-contractors and currently used in existing DSM programs, participants will use this contractor arranging process at the time of the RCS audit. This provides the customer with one stop shopping and in-turn

the utilities can be assured that the work is completed properly and according to the established protocols.

Marketing of Fuel Neutral Reward Program

There is to be no mass marketing of the Fuel Neutral Reward Program during the pilot period. Customers are informed about the program at the time of **intake/audit**. This way participation will be controlled and budgets closely monitored.

Vendor Budgets For Fuel Neutral Reward

The vendors will not exceed the budgets established for the Fuel Neutral Reward Pilot Program by the participating utilities. Program participation and budgets will be monitored monthly to ensure compliance. Budgets will incorporate costs for both audit delivery and Fuel Neutral Rewards or just Fuel Neutral Rewards depending on the type of service vendors are providing.

Quality Control

Each vendor will have a QC policy that will insure customer satisfaction. The customer will be required to sign a certificate of completion.

SERVICE CONTRACT

Amendment

This Service Contract Amendment (the "Amendment") is entered into this ____ day of January, 2001 by and between Conservation Services Group, Inc., a Massachusetts non-profit corporation ("CSG"), and ~~XXXX~~ (the "Customer").

FITCHBURG GAS AND ELECTRIC LIGHT COMPANY (FGL)

Whereas the Customer and CSG have a contract to deliver ECS services in Calendar Year 2000;

Whereas the parties agree to extend that contract for the calendar year 2001

Therefore, the parties hereby agree to the following amendment to the contract executed for the Program year 2001:

1. **Delivery Term.** The delivery term of this Agreement (the "Delivery Term") shall commence on January 1, 2001 and end on December 31, 2001 (the "Termination Date"),
2. **Purchase and Sale of ECS Program Services.** The parties agree to modify the services provided to the Customer to include the attached Fuel Neutral Reward Pilot Program that is described in Exhibit A. The parties further agree that CSG will be using new RCS software that has been approved for use by DOER and was developed at CSG's sole cost and is therefore proprietary software to CSG but will be used by CSG in the delivery of services and data to the customer at no additional cost to the customer.
3. **Units of Service.** The units of service under this agreement shall be modified to include both Energy Audits as defined and regulated by the DOER and Fuel Neutral Rewards as defined and regulated by the DOER approved Pilot Plan as attached in Exhibit A. The ratio of these units is not pre-determined but shall be determined by the consumer response to service delivery.
4. **Energy Audit Cost.** The cost for energy audits, including all administrative, labor, materials and delivery are described in Exhibit B.
5. **Transition Support Costs.** Customer agrees to pay a portion of the costs incurred by CSG in setting up and delivering the pilot program on behalf of the Customer for the period from 1/1/01 to 6/30/01. This cost will be a one time up front payment

described in Exhibit B to this amendment and invoiced by CSG upon execution of this Amendment and paid in accordance with the standard terms of the Agreement.

6. **Tier One Support Costs.** The Customer agrees to reimburse CSG for services provided to residential consumers in the event that these services do not include the delivery of an audit or Fuel Neutral Reward but do involve the mailing of literature or other approved information services. This reimbursement shall be in accordance with the pricing schedule incorporated in Exhibit B.

7. **Maximum Dollar Limit.** The customer will place a maximum total value on the delivery of all services under this Amendment. The dollar limit for the first six months ~~\$~~ of this amendment, from 1/1/01 to 6/30/01 shall be ~~\$31,000~~ 75,000. The limit for services in the subsequent six months shall be determined after consideration of any changes in the program design or implementation of new DOER regulations.

IN WITNESS WHEREOF, this Amendment to the Service Contract is executed this ____ day of _____, 2001.

CSG:

CONSERVATION SERVICES GROUP, INC.

By: _____
Stephen L. Cowell, President

CUSTOMER:

By: _____
Name: _____
Title: _____

Exhibit A
Pilot Program Description

(please see separate document)

→ Fuel

Budgets ?
Ret Ates ?

\$150,000

EXHIBIT B

Pricing

Prices include all materials installations, audits and administrative and management services.

Single family ECS Program Services

- a. \$165 per unit based on annualized projection of aggregated utility goals and budget
- b. Start up and transition lump sum payment of \$2588, which represents 4% of total utility cost share of start up costs for the fuel neutral reward pilot program. This amount may be modified in the event that DOER requests substantially more data reporting than is currently being provided to the Customer.
- c. Fuel Neutral Rewards provided directly to the consumer shall have no additional administrative cost. If, however, the utility chooses to mail the customer a check rather than provide the “instant rebate” approach, there will be a \$10 per transaction fee charged for processing the necessary paperwork for the utility.
- d. Management and Administration of Tier One customer communications and reporting: There will be a handling and reporting fee of \$10 per package shipped in addition to reimbursement for direct costs of printing and mailing.

Payment for Fuel Neutral Reward Pilot
Start up and Administrative Costs

As utilities, regulatory authorities, and vendors together embark on the next generation of energy programs in the State of Massachusetts, the vendor community is particularly proud to be a part of the process for design, development, and implementation. While we, along with other interested parties, want to ensure the success of the Fuel Neutral Reward Pilot, it is the vendors' responsibility to initiate, monitor, and report on field activity. Although agreed by all parties that the Fuel Neutral Reward Pilot is a significant step in the process of achieving our goal of an end-user driven marketplace, it is also a step that requires substantial investment.

The start-up, management, and field delivery of the Fuel Neutral Reward (FNR) Pilot involves numerous activities and costs not currently recoverable through the existing ECS Program structure. While ultimately the costs for the delivery of FNRs will be recovered in the prices set for the measures, we expect that due to numerous issues associated with this and any pilot, it will be impossible to recover a fair amount of initial vendor investment. As such, the vendors request a start up payment for a portion of these costs.

These investments by CSG in pilot program start up that are not likely to be recovered through measure sales in the pilot are describe below.

Database Set up and Modification: This will include time required to provide utilities with basic program data on the pilot activities in Tier 1 and Tier 2. This does not include the level of data proposed by DOER but does include the data discussed by vendors and utilities to date.

Projected Cost: 100 hours of programming @ 120 per hour= \$12,000

Reporting: The process of collecting, entering, reporting and maintaining program information for the Pilot program are expected to require the addition of .5 FTE for the pilot project period or a total of .25FTE for the Pilot Program 6 month period

Projected Cost: \$30,000 annualized FTE X .25 = \$7,500

Staff Training: Vendors will invest time and money training the auditors in effective sales techniques as well as in understanding the concept of Fuel Neutral Rewards. Our previous experience bringing in professional trainers underscores the point that training is extremely costly. Our experience also tells us that while vendor staff could do sales training, field staff react more positively to hired consultants. Training will be key to the success of the Fuel Neutral Reward Pilot. The auditors are extremely well trained in energy conservation materials and implementation measures, but previously have not had to sell. If we want to monitor the true success of the pilot, we must first remove any impediment to effective sales.

Per Projected 3 Day Staff Training costs:

Per Training: Consultant	1 @ \$6,000	= \$ 6,000
Field Staff Pay and lost revenue	35 @ \$250/day	= \$ 26,250
Misc. (food etc @ \$10/person/day)	35 X 3 X 10	= \$ 1,050
Sub Total		\$ 33,300

Number of Trainings: 3 (1 completed, 2 planned)	X 3
	= \$ 99,900

Additional Intake Time: Customer Service Representatives will increase the time spent during intake educating the end-user and explaining the additional service. An additional five minutes on each phone call can easily affect CSR response time to other customers. CSG will assume this cost for customers that proceed to Tier 2 services.

Additional Audit Time: Auditors will spend more time in the customer's home both assessing the site for the available measures and explaining the Fuel Neutral Reward incentive. Great care will have to be given when explaining the allowable measures, the persistence value of each measure, the process to access the incentive, and – finally – the completion of additional paperwork on-site. It is not at all unlikely that the additional time spent in a customer's home will prevent the completion of the minimum number of audits expected in a day. This cost is expected to be covered by additional sales revenue and will be assumed on a risk basis by CSG.

Subcontractor Training: The subcontractor community will have to be trained on this new initiative as well as in payment protocols. We will also want to expand our subcontractor base in anticipation of increased work. There will be additional quality control inspections to ensure that the subcontractors are completing work according to expectations.

Projected Cost: 2 days training/QC per contractor @ \$ 500 per day =	\$1,000
Projected 10 contractors	X10
Sub Total	\$10,000

Contract Coordination: Staff time will be dedicated to reviewing the paperwork, ensuring its accuracy, and assigning work to the appropriate subcontractor. Establishing and maintaining a system that tracks the Fuel Neutral Reward initiative is a staff responsibility not included in the cost of present reimbursable activities. This cost will be incorporated into per unit sales revenue from each job and will be assumed at CSG's risk.

Total Potentially Non-Recoverable Costs for CSG:

1. IT/Programming	\$ 12,000
2. Reporting and Admin	\$ 7,500
3. Staff Training	\$ 99,900
4. Contractor Training	<u>\$ 10,000</u>
Total cost to CSG	\$129,400
Utility Cost Share @ 50%	\$ 64,700

Split between Utilities:

N Grid	62%	\$40,114
N Star	23 %	\$14,881
WMECO	11%	\$ 7,117
Fitchburg G&E	4%	\$ 2,588

December 26, 2000

Mailloux, Ed

Docket D.T.E. 03-26, Exhibit D.T.E. 1-2a
Residential 2001
Residential Conservation Services 1A

From: Jarvis, Deb
Sent: Thursday, January 04, 2001 5:53 PM
To: Mailloux, Ed
Cc: Stewart, Fred
Subject: FW: ECS Letter to DOER

Importance: High



Utility DOER letter.doc

Hey Ed, I received this from Lisa Carloni (NStar) re: the ECS Pilot Program. You are on as signatory. What is this all about? Have we agreed to anything? Can you work w/ Fred to see if we agree with it -- and who should sign???

thanks, deb

-----Original Message-----

From: Carloni, Lisa
To: Deb Jarvis (E-mail); 'murphéf@nu.com'
Cc: Jerry Hanna (E-mail)
Sent: 1/4/01 2:49 PM
Subject: ECS Letter to DOER

Jerry and I are happy with the attached letter to request the pilot program.

If your Companies can sign off quickly, we can all send it off to the DOER.

Please respond ASAP.

Lisa Carloni
Director, Energy Efficiency
NSTAR
157 Cordaville Rd.
Southboro, MA 01772
(508) 481-7900, x2185
(781) 441-8701
Fax: (508) 229-0475
<<Utility DOER letter.doc>>

This email and any files transmitted with it are confidential and intended solely for the use of the individual or entity to whom they are addressed. If you have received this email in error please notify the system manager.

<<Utility DOER letter.doc>>

Mailloux, Ed

From: Agnes Hagopian [agnes.hagopian@csgpr.com]
Sent: Tuesday, January 02, 2001 11:45 AM
To: mailloux@unitil.com
Subject: contract etc



Payment for
FNRPIlot4.doc



utilserag2001unitil.doc

Hi Ed,

I've attached a draft ECS contract amendment and a revised document discussing the fuel neutral reward start up costs. Please let me know if these are acceptable, and I will get hard copies out to you in the mail.

One thing I'll need to know right away though, is whether you want your customers to receive the fuel neutral reward as an "instant rebate" or if you prefer an alternate method of delivering the reward to them. There will be no additional charge to you if it is instant, but if you do prefer to maintain control of handling the disbursement of the reward, we will have to charge you accordingly. We are training our auditors on the pilot this week, so I will need to know your decision within the next few days. Sorry for the short notice on this one. Our preference, in terms of customer satisfaction and ease of sales, is to provide the instant rebate approach of course, and National Grid and WMECO have also selected this approach. Please call if you would like to discuss this further. I'm at x3213. Thanks Ed.

Mailloux, Ed

From: Agnes Hagopian [agnes.hagopian@csgroup.com]
Sent: Thursday, January 04, 2001 4:30 PM
To: mailloux@unitil.com
Subject: FW: contract etc



Payment for
FNR Pilot4.doc



utilserag2001unitil.doc

Hi Ed,

Any decision on the methodology for the reward delivery yet? Training ends tomorrow and we'd like to be able to tell auditors how to present this.

-----Original Message-----

From: Agnes Hagopian [mailto:agnes.hagopian@csgroup.com]
Sent: Tuesday, January 02, 2001 11:45 AM
To: mailloux@unitil.com
Subject: contract etc

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Ed.

Mailloux, Ed

Docket D.T.E. 03-26, Exhibit D.T.E. 1-2a
Residential 2001
Residential Conservation Services 1A

From: Mike Guerard [mike.guerard@csggrp.com]
Sent: Friday, February 02, 2001 3:42 PM
To: Ed Mailloux
Subject: RE:

Hi Ed:

There seems to be some misunderstanding regarding delivery of the general use DSM work. The pilot program for the delivery of RCS does not include delivery of gen use work for any other utility. The RCS redesign never included the incorporation of this parallel service delivery. Although it might have been an option in the initial design discussion months ago, at this point it is not feasible to lump the two together without compromising the quality of both. Carl's group is fully staffed and trained to handle the residential general use work. The RCS team within CSG which I manage is only set up to deliver RCS. If you would like us to explore providing general use work as part of the RCS pilot program, I can develop a cost proposal to cover this additional redesign effort. Let me know which way you'd like to proceed. Thanks.

-----Original Message-----

From: Carl Fawcett [mailto:carl.fawcett@csggrp.com]
Sent: Wednesday, January 31, 2001 9:11 AM
To: Mike Guerard; Agnes Hagopian
Subject: FW:

Ed wanted me to forward this to you. He forgot to cc you on it.

-----Original Message-----

From: Mailloux, Ed [mailto:mailloux@unitil.com]
Sent: Tuesday, January 30, 2001 2:21 PM
To: 'carl.fawcett@csggrp.com'
Cc: 'mike.gerard@csggrp.com'
Subject:

Hi Carl. Hope everything is well with you.

Things are still confusing concerning all our residential efficiency programs in Fitchburg. With the beginning of the new RCS Pilot program our general use residential efficiency program has been rolled into the Pilot program. The Residential Space Heat Program will continue as with the Low-Income Program. The latter will be implemented by MOC.

I will get you a new database of customers for the space heat program as soon as I can.

The Low-Income Space Heat Program continues in NH.

We also want to be assured that screening of customers calls will ensure that they are referred to the correct program. This should avoid multiple audits of the home.

Also, effective immediately Kieth Freischlag, will be the new coordinator for all residential programs. His phone is 603-773-6458 and email is freischlag@unitil.com.

I'm still here and will be working with Keith to get him up to speed on the programs. Maybe we should schedule a meeting with the CSG group to introduce everyone. Let me know.

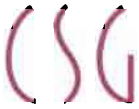
Mailloux, Ed

From: Agnes Hagopian [agnes.hagopian@csggrp.com]
Sent: Thursday, January 25, 2001 5:44 PM
To: Mailloux, Ed
Subject: ecs

Hi Ed,

Just wanted to confirm that you are still planning to participate in the ECS fuel neutral reward pilot program for the next six months and that you understand that we will not be piggybacking any DSM services onto the ECS program at this point. Your DSM programs will be operating much the same as last year. I am confirming this because after I spoke with you today Bill Footer told me that you had also called him and asked him not to do a particular project that you had already authorized him to go forward with. He said you were not sure about your budgets, and I wonder if that had anything to do with the ECS program delivery. It really should not, because the ECS goals (and budgets) at least according to Larry Masland at DOER were set based on last year's levels. The only difference this year is how many customers we'll be able to serve with rewards. We understand there is a finite budget for ECS, and CSG is committed to staying within the limit. The \$75k budget that you gave me is the most we would spend.

Also, I made the needed changes and mailed a service amendment out to you last week. Please sign and return it to me as soon as possible. Thanks Ed.



Conservation Services Group

Ed Mailloux
Fitchburg Gas and Electric
6 Liberty Lane West
Hampton, NH 03842-1720

January 16, 2001

Hi Ed,

I am sending you a revised service contract amendment, that reflects the two changes you requested—changing “Unitil” to Fitchburg Gas and Electric, and increasing the total dollar amount for audits and rewards for the six month pilot program to \$75,000. I did not resend the description of the Fuel Neutral Reward, which I did email you last week.

If this amendment meets with your satisfaction please have an authorized person sign and return it to me at your earliest convenience. Thanks.

Sincerely,

A handwritten signature in blue ink, reading "Agnes Hagopian".

Agnes Hagopian
Director
Conservation Services Group



Jane Swift
Governor

Jennifer Davis Carey
Director of Consumer Affairs

David L. O'Connor
Commissioner

COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS
AND BUSINESS REGULATION
DIVISION OF ENERGY RESOURCES

70 FRANKLIN STREET, 7TH FLOOR
BOSTON, MA 02110-1313

Internet: <http://www.state.ma.us/doer>
E-mail: energy@state.ma.us

Docket D.T.E. 03-26, Exhibit D.T.E. 1-2a
Residential 2001
Residential Conservation Services 1B

TELEPHONE
(617) 727-4732

FACSIMILE
(617) 727-0030
(617) 727-0093

March 14, 2002

Keith Freischlag
Energy Efficiency Programs Coordinator
Fitchburg Gas and Electric
6 Liberty Lane West
Hampton, NH 03842-1720

Dear Keith,

Scott and I thought that our meeting with you on February 27th was very worthwhile. By discussing your experience designing an in-home program from scratch in New Hampshire, you have brought a great deal of value to the reformation of the RCS program. This experience is especially evident in your familiarity with the various software tools that are available for residential energy analysis. I was also intrigued by your plans for bidding out the RCS program later this year. On behalf of DOER, I want to thank you for the commitment and creativity that you have given to the reformation of the Residential Conservation Service (RCS) program.

The remainder of this letter highlights the findings from similar meetings that we held with other program administrators in the last two months. By sharing these findings, DOER hopes to start a dialog about how we might continue to improve the RCS program.

If we think of last-year's activities to fulfill the requirements of the reformed RCS regulations as a journey, DOER can report that we have made great progress as well as a need to make a course correction in order to increase the implementation of program measures. Additionally, in the coming year we plan, with your help, to identify achievement milestones for moving the program toward competitive delivery of products and services.

Progress Report

Given that we needed to overcome the enormous amount of inertia that comes with fundamentally changing the Regulation for a twenty-year-old program, the progress made last year was outstanding in five areas:



- 1) Four electric companies, seven gas companies and one municipal aggregator signed the RCS Coalition Action Plan. This plan has also served as a template for the action plans being filed by municipal utilities.
- 2) A statewide 800-number exists for Tier One as does a commitment to provide services that are commensurate with customers' needs.
- 3) With respect to the goal of providing one-stop shopping for customers such that all gas and electric in-home programs are integrated, some companies have achieved it; the remaining are moving toward it.
- 4) DOER has received most of the requested program data for 2001 in the format agreed to last year. Once DOER has reviewed these first reports with the program vendors who created them, the production of this information will be virtually automated.
- 5) Customers now have both an Energy Efficiency Incentive and a Renewable Energy Incentive to motivate them to make energy improvement investments.

Course Correction

Even though we have accomplished much together, there is still important work to do. One critical remaining challenge is improving the implementation of major program measures. The percentage of home energy assessments (HEA) that result in the implementation of major measures, thus far, is very low for a program that both specifically targets customers who need to improve the efficiency of their homes and provides a significant financial incentive to motivate those customers.

With respect to improving implementation, we found that our discussions with program administrators were quite remarkable. The following are some of questions raised during these discussions:

- Which program elements should be standard across the state?
- What modifications to Tier One will improve implementation?
- What is the value of the HEA?
- Should DOER issue a directive prescribing the minimum requirements of a HEA?
- Should DOER limit a customer to a single HEA per residency?
- Should program administrators replace the seven-year payback criteria with a list of prescriptive measures for a customer to qualify for an incentive?
- Do the RFPs for Tier Two services need to give vendors a financial benefit based on implementation instead of audit production?

To help answer these and other questions, DOER plans to conduct two evaluations this year. The first will be a phone survey to determine whether customers who received audits in 2001 had "an opportunity to participate in all relevant Energy Efficiency Programs and [were] motivated to implement Program Measures" pursuant to 225 CMR 4.10 Audits (a). In conjunction with your input, DOER will develop questions for this evaluation in order to measure the progress of meeting this regulatory requirement.

The second program evaluation will consist of one or more focus groups to help us better understand what motivates people to make energy efficiency investments in their homes.

Achievement Milestones

As you know, this April DOER is holding a technical session on how to facilitate the development of a competitive market for RCS services and products. The session will be a presentation of what a competitive market means to program administrators, vendors, and other interested parties. To help stimulate your thinking about this objective, I will summarize our discussions with you in terms of three achievement milestones that may help us gauge how well the program is moving toward competition.

Milestone One

The first milestone is to improve the marketability of the RCS program with a name that describes it and has a greater appeal for customers. One goal of the evaluation focus group will be to help identify an appropriate name. Most program administrators seem to agree that an association with Energy Star® would be advantageous; and we discussed three options for an association with Energy Star®: Home Performance with Energy Star®, Home Sealing with Energy Star® and This Old Energy Star® Home. Indeed, the focus groups may provide an even more appealing program name.

However, in order to create this Energy Star® association and greater customer appeal, we need to address, at minimum, these two questions at the technical session.

- How do RCS products and services support the Energy Star® label?
- What customer groups benefit from which of these products and services?

Milestone Two

The second milestone is to describe what a competitive RCS program will look like and what steps are necessary to reach that goal. Because presenting your initial responses to these questions would take more space than this letter permits, I will describe briefly some of your answers.

One depiction of a competitive RCS program would parse the program into three services: management of the statewide 800-number, delivery of home energy assessments, and installation of program measures. In this view of a competitive RCS program, the vendor who manages the statewide 800-number could not be a vendor for Tier Two services. When considering this scenario, at least one administrator suggested that the vendor for the statewide 800-number could also be a central administrator for home energy assessments and competitive implementation. The rationale for having a central administrator is to streamline the oversight and payment of multiple vendors.

The process for parsing these RCS services would have three stages: selecting a statewide 800-number vendor; allowing customers to choose an implementation contractor other than the HEA provider; and having multiple HEA contractors available

for either customers to choose or for the 800-number vendor to assign. No one suggested a timeline for the implementation of these stages.

An alternative form of competition for the HEA would have vendors compete for exclusive geographic service territories. However, since electric and gas distribution companies do not have identical service territories, the mosaic of these exclusive RCS markets for HEA vendors would take some time to establish.

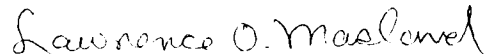
Milestone Three

The third milestone of this endeavor is to reach a stage of development where customers have clear and simple recourse if the products and services provided through the RCS program fail to perform. The question to answer is how does the program maintain a high level of quality when multiple vendors are competing under its auspices.

DOER looks forward to working with you this year and hopes our RCS accomplishments of 2002 can match or exceed those of 2001.

Please call me or send an email if you have any questions regarding this letter.

Sincerely yours,

A handwritten signature in cursive script that reads "Lawrence O. Masland".

Lawrence O. Masland
Residential Conservation Service Program Director